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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

--------------------- In the Matter of --------------------)) PUBLIC UTILITIES COMMISSION)) Instituting a Proceeding to Investigate the Issues and Requirements Raised by, and Contained in, Hawaii Revised Statutes Chapter 486H, as Amended)	DOCKET NO. 05-0002

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HAWAII PETROLEUM MARKETERS ASSOCIATION'S

MOTION FOR RECONSIDERATION

and

CERTIFICATE OF SERVICE

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HAWAII PETROLEUM MARKETERS ASSOCIATION'S

MOTION FOR RECONSIDERATION

Hawaii Petroleum Marketers Association ("HPMA"), by and through its attorneys, Cades Schutte LLP, hereby submits this Motion for Reconsideration pursuant to Hawaii Administrative Rules, Title 6, Chapter 61, Subchapter 14, Rules of Practice and Procedure Before the Public Utilities Commission ("PUC"). This motion seeks a reconsideration and modification to the PUC's Order No. 21952 filed August 1, 2005 (the "Order") with respect to Part II, Subpart A, Section 4 that sets forth the PUC's ordered Zone Price Adjustments for the eight zones within the State, including the island of Kauai (Zone 2).

This Motion is based on the attached memorandum and the confidential information that is submitted herewith under seal pursuant to the stipulation for protective order that was approved as modified by the PUC in Order No. 21669, dated March 1, 2005. Given that jobbers operate in a highly competitive industry, the individual proprietary information is extremely confidential and, if divulged, would cause irreparable damage to the respective HPMA member's operations and competitiveness in the marketplace.

DATED: Honolulu, Hawaii, August 12, 2005.

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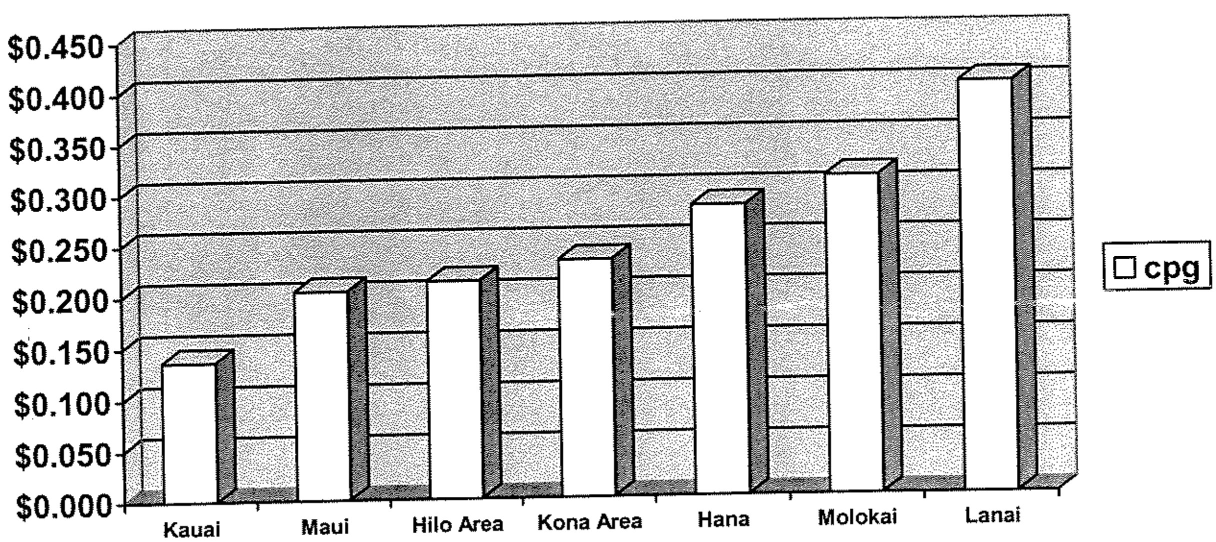
HAWAII PETROLEUM MARKETERS ASSOCIATION'S

MEMORANDUM IN SUPPORT OF MOTION FOR RECONSIDERATION

In Part II, Subpart A, Section 4 of the Order, the PUC examined ICF's proposed Zone Price Adjustments and concluded that to protect jobber-served dealer stations, such as the one operated by Mr. Jeff Guest in Princeville, Kauai, from adverse supply consequences, the PUC must set the Zone Price Adjustments at the highest actual transportation costs reported for each zone. See Order at 32.

Based on this reasoning, the PUC set the neighbor island Zone Price Adjustments as follows:



As the foregoing chart illustrates, the island of Kauai's adjustment of 13.6 cpg is substantially below similarly situated neighbor island zones such as:

- Maui (except Hana) at 20.4 cpg, a difference of 6.8 cpg,
- Big Island (Hilo Area) at 21.3 cpg, a difference of 7.7 cpg; and
- Big Island (Kona Area) at 23.2 cpg, a difference of 9.6 cpg.

Assuming the barge and terminal components of these zones are approximately the same, HPMA has concluded that it must be the reported trucking component that is out of line with respect to Kauai. HPMA believes the reason for this discrepancy stems from the Information Request (IR) process and the responses, or lack thereof, of the HPMA members operating jobber businesses on the island of Kauai. HPMA further believes that the only trucking cost numbers that the PUC received for Kauai were submitted in response to the PUC's First Submission of Information Requests, submitted under cover letter dated February 24, 2005, as clarified by letter dated March 2, 2005, and responses to the PUC's Follow Up Information Requests submitted to the parties under cover letter date March 29, 2005.

Senter Petroleum, Inc. ("SPI") and Kauai Petroleum Co., Ltd. ("KPC") are the two petroleum jobbers operating on the island of Kauai. To HPMA's knowledge, KPC did not participate in the IR process so no information was likely collected by the PUC from this jobber.

HPMA has learned that SPI, which did participate in the IR process through HPMA, responded to the PUC's initial IR-5 and IR-6 with an average per gallon operating cost. However, in follow up IR-41 the PUC sought specific breakdowns between trucking and marketing costs from SPI. SPI responded by informing the PUC that at such time it did not have these costs broken out separately, and that its fuel sale trucking costs were simply accounted for as part of its total operating costs. SPI had no further opportunity to provide actual trucking costs to the PUC and, apparently, the Kauai Zone Price Adjustment of

13.6 cpg did not include SPI's initially reported average operating costs, since there were no defined "trucking" costs.

As a result, HPMA believes that the only trucking costs that the PUC received for Kauai during the IR process were those of suppliers Chevron and Shell. HPMA believes that the actual trucking numbers reported by Chevron and Shell for Kauai were much lower than the actual trucking costs of a Kauai jobber such as SPI or KPC. Like most major oil companies, Chevron and Shell deliver gasoline to their stations in 9,000+ gallon semi-trailer loads, which are dropped at one location by gravity. Kauai jobbers, on the other hand, deliver in 4,500 gallon tank trucks, which include pumps, meters and hose reels, and often deliver to several locations on each run, sometimes partially loaded. These trucks are substantially more expensive to buy, maintain and operate than semi-trailer trucks. Based on the quantity of product carried alone, a jobber's 4,500 gallon truck costs are at least double the trucking costs associated with a 9,000 gallon truck.

Because jobber trucking costs for Kauai are much higher, the 13.6 cpg adjustment will not support deliveries to some locations, including Princeville. Therefore, HPMA respectfully requests that the PUC modify the Kauai Zone Price Adjustment based on the actual trucking costs provided by SPI in the attached revised confidential response to PUC-IR-41. Further, such an adjustment is supported by the following additional reasoning:

<u>Kauai Adjustment is Clearly Out of Line with Similar Zones</u>. The similarity among the Zones for Kauai, Maui (except Hana), Hilo and Kona (e.g., ocean distances, the size of terminals on the neighbor islands, and the smaller volumes

through Kauai versus either Maui or the Big Island) should clearly demonstrate that there is an inconsistency that needs to be rectified. Maui (except Hana) and Big Island adjustments are all very similar (within 3 cpg), while Kauai is at 13.6 cpg, a difference of approximately 7-10 cpg. The other neighbor island zone price adjustments (Molokai, Lanai and Maui-Hana) are all special cases with facts and circumstances that are not found in Zones 2, 3, 7 and 8.

HPMA believes that the Kauai Zone Price Adjustment should be derived not in a vacuum but with some assurance that the Price Adjustment is in the same "ball park" as the adjustments to similar neighbor island zones. On a volume throughput basis alone, one can easily surmise that Kauai's overall costs will be higher given that the volume is much lower in this zone than the other similarly situated zones.

Analogous PUC Rates. On the island of Kauai, Kauai Commercial Company, Incorporated provides petroleum product trucking services in 9,000 gallon trucks at the following rates that were published with the PUC effective May 4, 2005:

- Port Allen to Kilauea = $0.060924 cpg
- Port Allen to Hanalei = $0.068537 cpg

Since Kauai jobbers operate trucks that are ordinarily 4,500 gallons in size with far more mechanical components than the gravity-drop semi trailer trucks, the jobbers incur at least double the operating costs per gallon of the 9,000 gallon trucks operated by trucking companies like Kauai Commercial (and for that matter Chevron and Shell which use the same larger sized trucks). If Kauai Commercial charges its customers approximately 6.85 cpg to travel from Port

Allen to Hanalei (a round trip of approximately 60 miles), then a Kauai jobber's charge for this same length of delivery would be as much as twice this amount or 13.7 cpg (an amount just 1/10th of one cent more than the total 13.6 cpg Zone Adjustment for Kauai which also includes barging and terminaling components).

However, SPI's longest and highest cost delivery originates at its Lihue yard, then goes to Port Allen (where it purchases its fuel products at the Chevron terminal rack), then returns to Mr. Guest's station in Princeville, and finally returns to Lihue (a distance of approximately 100 miles). Based on this fact alone, trucking costs per gallon would be significantly higher for a Kauai jobber than what a commercial contract carrier would charge for the same service. In the example above, the trucking costs alone would be higher than the total Zone Price Adjustment for Kauai. In fact, using the mileage ratio (100/60) would bring the total trucking cost to 22.8 cpg.

Further, Kauai Commercial's published PUC rate suggests an incremental mileage cost between Kilauea and Hanalei of about $0.007613 per gallon over a distance of less than 10 miles. Since Kauai jobbers have at least double the per gallon costs of larger truck carriers such as Kauai Commercial, a 4,500 gallon load over a 10-mile distance translates into an incremental mileage cost of approximately $0.01523 per gallon.[1] Because the distance from Lihue to Port Allen to Princeville to Lihue is roughly 100 miles, this translates into an additional incremental trucking cost of ten times this amount, or over $0.15 per gallon.

HPMA trusts the above supporting arguments, along with the attached confidential actual trucking costs of SPI, will help resolve the inconsistencies

[1] Note that the Princeville station has an average delivery capability of only 4,000 gallons.

between the Kauai Zone 2 Price Adjustment and the Maui (except Hana) Zone 3 and the Big Island's Zones 7 and 8 Price Adjustments. In order to meet the PUC's objective of ensuring that all the State's existing gasoline distribution facilities remain viable, it is necessary for the Zone 2 adjustment for Kauai to reflect the actual costs of jobber deliveries to remote stations such as Mr. Guest's station in Princeville. This is also consistent with the PUC's stated methodology of using the highest costs in each zone.

We would also note that the Order, albeit affording a certain level of protection for remote locations under current industry pricing patterns, offers no assurance that suppliers will continue to pass through the allowed price adjustments on to jobbers statewide.

HPMA and SPI are available to provide whatever additional information might be required to enable the PUC to issue a modification to the Zone 2 Price Adjustment prior to implementation of HRS chap. 486H on September 1, 2005.

Respectfully submitted,

Hawaii Petroleum Marketers Association

By:
Robert Fung
Its President

Senter Petroleum, Inc.

By:
Brian Barbata
Its President

CERTIFICATE OF SERVICE

I hereby certify that on August 12, 2005, I served copies of the foregoing, together with this Certificate of Service, either by United States mail, postage prepaid, or by hand-delivery to the following:

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